

# **Chapter VI**

## **Transnational corporations and industrial relations**

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### **Introduction**

Industrial relations in transnational corporations (TNCs) are going through a period of great change. This chapter is therefore a snapshot of this transformation. It seeks to highlight a number of issues that are important to the relations between labour and management in TNCs. Underlying them is the basic difference between the international organizational scope of TNCs on the one hand and the mostly national scope of labour organizations on the other hand. As markets become global and production is integrated regionally or internationally, most TNCs are making changes that affect the labour force and the mechanisms that are used to negotiate with labour.

The focus of this chapter is on industrial relations, that is, issues related to organized systems of relations between workers as a collective group — typically represented by trade or labour unions — and the management in TNCs. One reason for focusing on relations between TNCs and organized labour is that unions continue to be important to articulate, explain and present workers' views to management, and as a means to determine, through negotiations with management, general standards of treatment of workers. As in other enterprises, industrial relations in individual TNCs are still traditionally largely driven by union initiatives and management responses. However, in situations in which unions are an established part of labour-management relations, management is increasingly finding it useful to work with unions in dealing with issues related to the workplace. This is taking place within a broader trend towards

increased communication between management and workers and especially a trend towards *direct* management-workforce communication. Moreover, TNCs are typically firms that invest in their workforce and deal with workers' organizations with a view towards establishing an effective relationship. Therefore, industrial relations difficulties do not arise in TNCs more frequently than in domestic firms. This is all the more important because the pattern of industrial relations adopted by TNCs may become a model for domestic firms and that part of the labour force that is not organized.

The process of change that industrial relations in TNCs are undergoing unfolds in an environment that is itself changing. Important in this respect are, among others, a significant increase in the number of TNCs and the volume of foreign direct investment (FDI); the recognition that TNCs can make important contributions to development and the resulting efforts of all countries to attract FDI; the increasingly cross-border nature of the process of corporate restructuring; greater ease of organizing production internationally, facilitated by developments in information and communication technologies; the growth of FDI in services; the participation of TNCs in large-scale privatization programmes undertaken by many countries; and the rapid international diffusion of technological advances and innovative patterns of work organization pioneered by TNCs. These changes have taken place at a time when the influence of trade unions is experiencing a relative decline, particularly in developed countries, due to, among other factors, higher unemployment, large reductions in employment in traditionally well-organized industries, such as steel, coal and shipbuilding, the growth in the number of workers that are in sectors that are generally more difficult to organize, such as small service enterprises employing part-time or temporary employees; the increase in the relative importance of highly skilled workers who often prefer to remain outside unions; the changing attitudes of firms towards "people empowerment"; and the progressive deregulation of the labour market in many countries. The adoption of flexible forms of production and the growing reliance on subcontracting can also weaken union action. Finally, in many countries, especially developing countries, governments tend to dominate formal labour relations, and union influence is often weak to begin with. In fact, throughout this chapter it must be kept in mind that governments and national frameworks play a crucial role in determining the nature of industrial relations systems and the interaction between TNCs and organized labour.

Industrial relations in TNCs are not only changing, but are also highly diversified by sector, TNC home or host country and type of company. It is thus difficult to identify clear-cut patterns or trends. This chapter does not seek to arrive at definite conclusions regarding current trends, but rather focuses on some broad developments, with a view towards informing the ongoing debate on the evolution of industrial relations in relation to TNCs. To some extent, the discussion that follows draws on experience in Western Europe, especially the European Union. Partly, this is because a number of the changes that are taking place are occurring in Western Europe, where the challenges of economic integration and increased competitive pressures have led to large-scale restructuring and rationalization with consequences for workers, and where, at the same time, the social dimensions of integration are recognized and formally incorporated into the agreement following the establishment of a Single Market. Although other countries may not necessarily follow the Western European model, many of them are going through processes of regional economic integration and may therefore find the European experience with respect to industrial relations instructive, even if the concrete outcomes are perhaps entirely different.

More specifically, section A examines issues related to union organization and action in TNCs. Within the basic asymmetry of the organizational scope of TNCs and unions, the question of locational flexibility of production by TNCs assumes particular importance because it can have implications for the effectiveness of union action. Another aspect of the differences in organizational scope is that the decision-making process in TNCs is complex and, by definition, cross-border in nature. This raises the industrial relations issues of access to decision makers and

information, which are examined in sections B and C, respectively. Furthermore, TNCs are often pioneers in the introduction of new production systems and management methods, with implications for established labour-management relations. Section D explores some of these implications, especially regarding the extent to which the emergence of an integrated international production system requires, more than ever, flexible, imaginative and cooperative approaches towards industrial relations that fully recognize that "labour is now regarded more as a multifunctional asset than as a cost and as a critical participant in the wealth creating process" (Dunning, 1994, p. 18).

### A. Union organization and action

Transnational corporations adapt their industrial relations systems to the legislations and practices of their host countries; in doing so, their approach towards trade unions might be influenced by the attitudes of the governments of host countries towards organized labour. Industrial relations systems as well as patterns of unionization have features specific to individual countries which are the outcome of history and tradition and differ considerably across countries, even among countries with relatively similar economies. The understanding of, and sensitivity to, differences in work cultures, negotiating procedures and rights and responsibilities of both employers and employees are important ingredients of success in managing affiliates in a foreign country.

The international character of TNCs, however, suggests that they may pursue labour-relations practices that differ in some respects from those of indigenous enterprises in a host country. Transnational corporations' practices are often subject to the influence of home country values and experiences, as well as their own accumulated international experiences. Indeed, many firms maintain a fairly standardized approach to labour relations throughout their corporate systems (box VI.1). Thus, the establishment of foreign affiliates is potentially a force for change in a host country's industrial relations system, including concerning the role of unions. Of particular interest in this context are the acceptance of unions as a mechanism for collective bargaining by TNCs and the effectiveness of union action under conditions of international production. Both issues, in turn, are influenced by the locational flexibility associated with international production which, therefore, is considered first in the discussion below.

#### 1. The influence of locational flexibility

An important aspect of the international character of the organization of production by TNCs is the question of the extent to which the potential geographic mobility of production constrains the ability of labour to organize itself and to bargain collectively. Locational flexibility of TNCs has three major dimensions: the actual physical relocation of existing production, the outsourcing of components from different countries and the redirection of incremental investment.

- The actual closure or scaling down of one plant to restart production in another location, i.e., relocation of production in its narrow sense, is not common. Major constraints to such a strategy include disengagement costs, such as "sunk costs" (investments already made), severance payments, transfer and set-up costs and output losses. Besides, relocation in this narrow sense is only feasible for certain types of production activities. It is not feasible for location-bound activities, such as natural resource extraction and many kinds of services, which together account for about two-thirds of FDI. It is also low for investments made, in the first instance, to serve local markets or where establishment was encouraged by high tariffs or other import barriers. High capital intensity, too, limits the mobility of produc-

tion: heavily amortized capital costs and limited wage-cost savings mean that such facilities are likely to display high levels of stability. None the less, the possibility for splitting up production processes into segments has paved the way for the transfer of labour-intensive stages of production from developed countries to locations characterized by low labour costs and a more liberal labour-market environment; instances of such relocations can be found, for example, in the electronics industry. Plant closings resulting in lay-offs have also involved TNCs located in developing countries. The shift to other locations of labour intensive manufacturing by TNCs from a number of countries in Asia and Latin America in which labour-cost advantages have diminished has occurred in several industries, such as textiles and electronics. Some repositioning of TNC activity has also taken place in the framework of the creation of regional markets.

### Box VI.1. Labour relations practices at IBM

IBM follows a fairly standardized approach to labour relations in its various affiliates abroad. Its main elements are:

- *Unionization.* IBM respects the right of employees to be represented when legally required to do so; however few IBM plants worldwide are unionized.
- *Single status workforce.* This implies common terms and conditions of employment for all employees, covering working hours; holiday entitlement; sick pay; company pension schemes; life assurance; private health care; subsidized canteen facilities etc..
- *Salary levels based on individual job evaluation and individual performance appraisal.* Salary ranges are established for each job category and employees' positions within each grade depend on individual performance.
- *Communication.* Maximum communications and consultations at all levels are seen as being central to IBM's personnel philosophy.

Source: information obtained from IBM; Annual Reports.

- The outsourcing of components through subcontracting and similar mechanisms have increased significantly in recent years, as TNCs have tended to concentrate their activities in core areas where they can best develop competitive advantages based on their firm-specific competence. This trend is widespread in the automotive, electronic and textile industries and has perhaps been taken furthest in the case of garments and footwear (chapter IV).
- The redirection of *incremental* investment is part of a constant and broader process of adaptation — of which the relocation of production, as well as outsourcing, are also a part — without which firms would lose their competitive advantage and, ultimately, fail. Driven by competition, it reflects, among other things, shifting comparative advantages, new market opportunities, changing regulatory frameworks and new possibilities to structure and manage far-flung corporate networks. The very fact of FDI is an expression of this process. The decision as to where to locate additional investment is influenced by a complex set of factors, among which issues pertaining to industrial relations typically do not play a primary role (UNCTC, 1992b).

All three aspects of the locational flexibility of TNCs have implications for industrial relations. For example, in the case of the abrupt closure of an affiliate, the adverse effects on the labour force of the affiliate closure need to be mitigated. The issue is not whether or not a firm is allowed to cut back or terminate operations in a given plant under normal circumstances — that

is the prerogative of management.<sup>1</sup> Rather, the issue is to what extent "reasonable notice" should be given of such changes,<sup>2</sup> and the importance of actions to be undertaken by management to seek cooperation with all parties concerned to mitigate adverse effects to the maximum extent possible. In the case of subcontracting, to the extent that it creates a segmentation between a core workforce of those directly employed by TNCs and a periphery of workers employed in independent (or formally independent) small and medium-sized subcontracting firms, the ability of unions in the parent company to articulate, explain and present effectively the collective interests of all workers is affected: peripheral workers are traditionally difficult to reach and to organize, the more so when they are located abroad. Finally, there is always the possibility that, where they exist, the options of relocation, outsourcing or redirection of future investments, enter bargaining situations, if only because they are perceived to exist. There are, in fact, relatively few documented cases of closure or relocation prompted by labour-relations difficulties (OECD, 1985), and the Tripartite Declaration of Principles Concerning Multinational Enterprises and Social Policy of the International Labour Organization, as well as the Guidelines for Multinational Enterprises of the Organisation for Economic Co-operation and Development (see chapter IX) expressly preclude threats of such relocations. However, in some cases, considerations relating to the locational flexibility can inadvertently enter bargaining relationships. This can occur, for example, when management, strictly on economic grounds, considers alternative sites of production or when, drawing on its broader experience, it points to examples of different and more efficient types of work organization elsewhere. And even where industrial relations considerations enter discussions, they do not necessarily determine their outcome. Still, the locational flexibility of TNCs is a factor that is likely to be present in the relations between TNCs and trade unions.

Locational flexibility increases as location is determined less by proximity to final markets or fixed resources and more by relative costs and the existence or enhancement of created assets, such as highly skilled labour, technologies and "social infrastructure" comprising, *inter alia*, industrial relations systems. Increased locational flexibility is also encouraged as governments reduce barriers to trade and investment and introduce a range of policies designed to enhance comparative advantage (education and training, cooperative research-and-development programmes), as infrastructure improves and as information and communication technologies make feasible the coordination of far-flung activities. However, this does not imply the inevitability of increased capital mobility; rather, *locational choice* and the likelihood of mobility are expanded.

The way in which TNCs organize their activities further affects the issues mentioned above. Complex corporate strategies (UNCTAD-DTCI, 1993a), in their interaction with government policies, affect a number of aspects of the locational choices of TNCs. The specialization of affiliates under this strategy means that specific activities are placed in optimum locations. In TNCs pursuing complex integration strategies, corporate restructuring involves a consolidation of employment as duplicate functions are rationalized and as some activities are resited in an attempt to optimize the efficiency of production activities. Under complex strategies, a broader range of corporate functions is also subject to potential reorganization. Research and development, marketing, accounting and other parts of the value-added chain may no longer necessarily be carried out together with production in one site in one country. Trade unions may therefore find it increasingly difficult to use their organizational strength in production to win members and exert influence in other areas. At the same time, labour needs to consider the competitive position of the firms involved; if complex strategies represent best practices that increase the efficiency of a corporate system as a whole, efforts aimed at hindering the pursuit of such strategies ultimately may hurt both the firms and their employees.

The outcome of locational decision-making by TNCs can also be influenced by the increasingly intense competition for FDI, including competition that is based on the terms and conditions under which production can occur. Investment decisions by TNCs adopting complex integration strategies rely on an intricate calculus with respect to a range of competing locations with different

industrial relations structures and performance. For example, among the largest foreign affiliates in the United Kingdom, those organized along global lines and with links between operations in different countries are more likely to collect data on labour performance and compare them across countries (Marginson et al., 1994). This may require special consideration on the part of trade unions if the danger of locational disadvantage is to be minimized. It may also imply growing competition among national unions and the need to re-engineer existing patterns of negotiations to maintain a competitive position.

## 2. Union recognition

Since union organization directly affects employee cohesion and bargaining power, the acceptance of unions by and within TNCs is an important issue. Union organization brings both costs and benefits. The costs to management may be higher wages, reduced labour flexibility, an erosion of certain managerial prerogatives, greater accountability for decisions, a formalization of labour-relations procedures and, in some countries, demarcation disputes between unions. The benefits that unionization can bring include enhanced communication between labour and management, reduced labour turnover and, possibly (as emphasized by best practices of work organization), higher worker motivation and commitment to quality work. A positive relationship between labour and management is a prerequisite for increased labour productivity and quality of production, the more so under complex integration strategies that emphasize created assets as a main source of competitive advantage. In keeping with this, TNCs typically pursue a pragmatic approach towards unionization, attempting to capture the benefits of union organization whilst simultaneously minimizing attendant disadvantages, and calibrate their policies according to the institutional arrangements, laws and practices of the countries in which they operate. Often, in fact, TNCs even maintain standards that are higher than those of their local counterparts. This is particularly the case when company-wide standards are observed in countries with a weak industrial relations structure. Sometimes, it appears that some TNCs do not respect the right of employees to be represented and, in specific instances, discourage organizing activities of employees (OECD, 1992b, p. 43). It is, however, important to reiterate that, where they are required under national legislation, the norms observed concerning freedom of association and the right to organize are usually observed as closely by TNCs as by their local counterparts. However, the situation inevitably varies across countries, reflecting differences in industrial relations systems, cultural influences, the effectiveness of law-enforcement mechanisms and the management style and size of firms.

Size is, indeed, an important factor. Large TNCs, in particular, have a good record when it comes to recognizing unions in negotiating collective agreements; the "non-union" approach of a number of large TNCs has, however, attracted considerable attention, particularly in Europe, but cannot be considered representative of all TNCs. Large TNCs also tend to be more closely watched as regards their industrial relations practices. In the case of an affiliate of a United States firm in the United Kingdom, the company, responding to allegations of anti-unionism, pointed out that industrial relations were conducted on a company-wide basis and that terms and conditions were uniform throughout the company. It challenged union recognition at its plants in the United Kingdom on the grounds that the level of union membership was too low to warrant it. On that occasion, the company resisted a union organizing drive, relying on its record in terms and conditions of work and obtaining the support of the employees through a ballot (Campbell and Rowan, 1983). The firm does, however, recognize unions in several countries worldwide when the host country institutional framework requires it. More broadly, TNCs tend to be influenced by their home country practices in their industrial relations abroad, even though comparative studies for the United Kingdom and the United States suggest that ownership nationality has only a limited effect on union recognition (Dunning, 1993b, p. 337).

More recently, there seems to be a growing trend towards the establishment of non-union plants, as, for example, in firms of smaller-than-average size established in the United Kingdom (Beaumont and Townley, 1985; and Beaumont et al., 1991). This trend is also apparent for a number of foreign affiliates in both manufacturing and services industries in the United States (Peet, 1987). However, there is limited evidence that investors are disproportionately attracted to areas where unions are weak and unemployment is high (Mair, Florida and Kennedy, 1988) or, more generally, that the existence of weaker unions is an important determinant of investment location. Overall, moreover, the few data available suggest that the proportion of workers unionized is not lower in foreign affiliates than in domestic enterprises. On the contrary, according to a 1989/1990 survey in Australia, for instance, 43 per cent of foreign affiliates were considered "active bargainers", with about three-quarters of their work force unionized (ILO, 1992a p. 160).<sup>3</sup> More systematic data on the United States show that union membership is higher in foreign affiliates than in domestic firms (table VI.1). In goods production, including manufacturing, the proportion of workers unionized in foreign affiliates in the United States in 1987 was similar to the proportion unionized in total United States goods production. In services taken as a whole, however, foreign affiliates were unionized to a considerably higher extent than all United States services firms. There were, however, considerable differences among different service industries. Unionization rates were higher in foreign affiliates than in all firms in wholesale and retail trade, services (narrowly defined) and in construction, but foreign affiliates were less unionized than all firms in finance, transportation, communications, and public utilities. Furthermore, there were few differences in the overall degree of unionization in terms of country of origin of TNCs — affiliates from Canada, Europe and Japan each had a higher unionization level than all United States firms. Affiliates in the United States of TNCs from Japan are slightly more unionized than others in manufacturing and goods industries in general, but less unionized in services, particularly in wholesale trade, which accounts for a major part of Japanese FDI. Data for 1980 (table VI.1) show a broadly similar pattern. Foreign affiliates were, as in 1987, more highly unionized than all United States firms, although unionization in both domestic and foreign firms decreased considerably during the 1980s. Unionization rates for Japanese affiliates were somewhat lower than those of other affiliates in services and higher in manufacturing, but on the whole, there were no significant systematic differences in the degree of unionization of affiliates according to TNC home country.

Such aggregate data hide, of course, a noticeable variation in unionization among individual foreign affiliates. For example, a sample survey of Japanese-owned plants in California showed that only 7.6 per cent of plants with more than 100 employees were unionized; the survey suggested that Japanese managers viewed the demand for unions as symptomatic of management failure (Milkman, 1992, p. 173). More generally, it appears that the rate of unionization of workers in Japanese affiliates worldwide is low (Watanabe, 1993, pp. 143-144; and Woodward, 1992) when compared with the rate of unionization that prevail in the home country. Individual large Japanese TNCs, however, may act differently. The majority of Toyota's plants in Japan, as well as elsewhere, is unionized. A number of plants in Canada and a large plant in Georgetown, Kentucky, in the United States are the exception. The latter, involving the choice to locate in a rural area in a state in which labour unions are weak, was viewed by United States labour unions as an indication of an anti-union practice. According to the company, however, other variables determined locational choice and, in any event, the firm emphasized worker participation through a variety of other instruments (ILO, 1993c, p. 98). In general, where workers are not unionized, the managers of Japanese affiliates maintain close communication with the employees by means of regular opinion surveys and meetings, bulletin boards, newsletters and the provision of information on production for the team leaders (Watanabe, 1993, p. 143).

There is growing evidence that, in those countries where unionization has developed at least in part by craft and not by industry, the primary effect of TNCs on union organization may be on the number of unions recognized, as opposed to, simply, the acceptance of unionization. In

**Table VI.1. United States: union membership in foreign affiliates and all firms relative to total employment, by ownership and industry, 1980 and 1987**  
(Percentage)

Industry	1987					1980				
	Country/area of origin of transnational corporations				Total United States	Country/area of origin of transnational corporations				Total United States
	Canada	Europe	Japan	Total foreign		Canada	Europe	Japan	Total foreign	
<b>Goods production (total)</b>	23.2	..	25.4	21.7	21.6	..	..	..	30.5	33.4
Agriculture, forestry and fishing	-	-	7.1	21.0	2.2	..	..	..	17.2	..
Mining	25.9	33.1	-	30.8	-	33.7	36.6	..	39.9	27.8 <sup>a</sup>
Petroleum <sup>b</sup>	9.1	..	-	9.1	18.3 <sup>c</sup>	10.7	25.1	-	23.0	..
Manufacturing <sup>d</sup>	23.3	21.0	25.9	22.4	23.2 <sup>e</sup>	34.9	30.8	28.8	31.1	33.4 <sup>f</sup>
<b>Services (total)</b>	15.2	..	11.5	16.1	10.0	..	..	..	27.4	17.5
Wholesale trade <sup>g</sup>	..	13.6	5.9	11.6	7.1 <sup>h</sup>	38.3	21	5.3	18.4	7.4
Retail trade <sup>g</sup>	..	26.0	-	20.7	-	..	40.5	2.1	36.4	9.1
Finance, excluding banking	-	-	0.7	0.6	2.3	..	-	-	-	1.5 <sup>i</sup>
Insurance	-	-	-	0.2	..	-	..	..	..	5.8
Services <sup>g</sup>	..	9.3	18.2	14.2	6.3 <sup>j</sup>	7.2	29.2	53.3	27.4	28.5
Construction	..	..	..	41.6	21.0	49.1	48.1	..	47.3	36.2
Transportation	39.0	21.8	..	25.4	33.5	87.8	..	..	62.2	12.5
Communication and public utilities	..	..	100.0 <sup>k</sup>	20.8	..	..	..	..	52.5	..
<b>All industries</b>	19.1	18.9	15.6	18.9	13.2	32.6	30.1	20.3	29.3	20.2

Sources: United States, Department of Commerce, Bureau of the Census (1989), table 684, and (1984), tables 707 and 729 and Bureau of Economic Analysis (1990), tables F-3 and F-15 and (1983), tables F-4 and F-12.

a Including oil and gas extraction.

b Foreign-affiliate data include all petroleum operations (extraction, refining, wholesale, and retail trade and services).

c Including petroleum and gas extraction but not other petroleum operations.

d Foreign-affiliate data exclude petroleum refining.

e Including petroleum refining.

f Including petroleum and coal products.

g Foreign-affiliate data exclude petroleum operations.

h Including petroleum wholesale trade and gasoline stations and retail trade.

i Including banking.

j Including petroleum services.

k Numerator and denominator both are 0.1 thousand. Actual percentage could be anywhere from 50 to 100, depending upon the rounding.



countries such as the United Kingdom, where unionization has developed along craft or occupational lines, multi-union representation is commonplace. For the employer, this can bring problems of increased bargaining costs, reduced flexibility and inter-union disputes. And, in the same way as a union seeks to negotiate with one management decision maker, management prefers to negotiate with one union spokesperson. To avoid difficulties in this respect, a number of TNCs have displayed a preference for dealing with one, rather than a number of unions, in their affiliates in the United Kingdom which, in turn, can lead to "beauty contests" among unions (Dunning, 1993b, p. 377; Oliver and Wilkinson, 1988). Such a strategy was found to be popular particularly among recent investors. For example, Nissan, upon establishment in the United Kingdom, extended sole recognition rights to the Amalgamated Engineering and Electrical Union (box VI.2). This gave the company an advantage over the then indigenous competitor Austin Rover, which negotiated with 13 unions in five company-level bargaining groups. However, one of the most interesting consequences of the arrival of Nissan and its industrial relations practices in the United Kingdom eventually, was the conclusion, in Rover, of a new collective agreement with unions which achieved, in a multi-union situation, results similar to those achieved in a single union agreement in Nissan. This suggests that the issue for TNCs is not so much multi-union representation *per se*, but the ability of a firm to deal with a clearly identifiable statement of the position of labour as a group.

The direct or indirect impact of TNCs on union recognition may be significant in developing countries as well. Within export processing zones, and in particular in the electronics industry, there is evidence that workers rights to join a national union, to engage in collective bargaining and/or to strike, have been restricted by governments to increase the attractiveness of a country as an investment location (Grace, 1990). In some cases, employees have been encouraged to join in-house unions. For example, although labour practices in Malaysia generally compare well with those of other developing countries, the Government of Malaysia had restricted attempts to unionize electronics workers in the belief that unions would discourage FDI in the industry. When the Government agreed to allow trade unions in the electronics industry, this decision was opposed by the Malaysian-American Electronics Industry. Under these circumstances, the Government modified its policy, permitting only in-house unions rather than the industry-wide union planned initially (Lim and Fong, 1991, pp. 117-118).

Developing countries vary in their policies regarding trade unions and their role, but improved labour relations generally accompany economic development. While, initially, low labour standards may be one of the factors attracting certain FDI, the positive impact on growth of such investment tends to lead to their improvement, both through market forces and government policy. Needless to say, controls on labour in the absence of other locational advantages fail to attract the desired FDI. In fact, as the experiences of the Republic of Korea and Taiwan Province of China illustrate, countries with high growth rates and expanding markets continue to attract FDI despite rising wages and occasional or periodic labour unrest (Lim, 1990, p. 89).

In Central and Eastern Europe, unions have changed dramatically over the past five years. The old unions have undergone substantial democratization and new independent unions have emerged. Industrial relations are still in transition, with new or substantially reformed structures coexisting with remnants of the old system. For example, in the metal industry in Hungary, some large units have left the Ironmakers Federation to become members of alternative organizations, including in Tungsram, after its acquisition by General Electric (ILO, 1992b, p. 89). Unionization rates were found to be rather low in joint ventures in Hungary, especially in firms with relatively small-scale operations in the services sector, where unionization had traditionally been weak. In larger establishments, workers generally had favourable compensation packages and, as a result, could be dissuaded from joining unions (ILO, 1992a, p. 170).

### Box VI.2. Labour relations at Nissan

Labour relations at Nissan Motor Manufacturing (UK) Ltd., illustrate the attempts of TNCs to reconcile host country requirements regarding unionization with the company's own preferences. The main features of Nissan's labour relations policies in the United Kingdom are:

*Union recognition.* Nissan has negotiated a single union deal with the Amalgamated Engineering and Electrical Union which represents all personnel up to and including senior engineer and equivalent levels in the company. This contrasts with the traditional pattern of multi-union recognition in the British motor car industry. The company encourages employees to join the union and to take an active part in its activities; trade union subscriptions are deducted from salaries, and there is no discrimination against non-union members.

*Company council.* This is the main forum for consultation and negotiations between the company, its employees and the Union. It consists of elected representatives covering all employees and representatives appointed by the company. Meetings are held at least on a quarterly basis and cover three broad issues:

- matters concerning the company's business including quality, production levels, market share, profitability, investment etc.;
- issues referred to the council under the procedure agreement for resolving disputes;
- salaries and terms and conditions of employment (see below).

*Negotiations.* Negotiations concerning salaries and terms and conditions of employment are conducted at plant level through special meetings of the company council at which there is no other business. Agreements are normally valid for two or more years duration. Both the company and union are committed to resolving negotiations in-house but in exceptional circumstances disputes may be referred externally to the Advisory, Conciliation and Arbitration Service for conciliation and, if necessary, arbitration. The agreement with the union states that there will be no industrial action during the negotiation process.

*Disputes resolution procedure.* Most disputes are expected to be resolved informally between the employee(s) and his/her immediate supervisor. In cases where this is not possible, a four stage dispute resolution procedure is applied with the final stage being a referral to the company council.

*Salaries.* A salary range is applied to each occupational classification with progression through the range being based on individual performance.

*Hours of work.* The basic working week is 39 hours, with all employees hired on the understanding that they will work shifts including alternating day/nights; double day shifts; and five day continuous shifts. Premium rates of pay are paid for shift and overtime working.

*Working practices.* Complete flexibility and mobility of employees is expected to ensure the fullest use of facilities and manpower. Training plays a crucial role in allowing such flexibility and mobility.

The basic principles covering working practices in the company are stated in the terms and conditions of employment agreement with the union, as follows:

- To ensure the fullest use of facilities and manpower there will be complete flexibility and mobility of employees.
- It is agreed that changes in technology, processes and practices will be introduced and that such changes will affect both productivity and manning levels.
- To ensure such flexibility and changes employees will undertake training for all work as required by the company. All employees will train other employees as required.
- Manning levels will be determined by the company using appropriate industrial engineering and manpower planning techniques.

Source: information obtained from Nissan.

### 3. Effectiveness of union action

While negotiation is the framework for the normal relationship between unions and management, there are situations in which this mechanism breaks down and unions feel they need to take other forms of action, if they are allowed to do so by national regulation. (The right to strike — the ultimate union recourse — does not exist or is limited in a number of countries, particularly in export processing zones (box VI.3).) Where the right to strike exists, a potential source of advantage for a TNC, stemming directly from its transnational character, could be its ability to switch production, at least in principle, temporarily across national boundaries.

However, production switching depends on a number of factors, including the existence of duplicate facilities and the ability and willingness to use them:

- \* Typically it is difficult if not impossible to switch production among affiliates in the natural resources and especially services sectors because the former are location bound and the latter market bound.
- \* Opposition from employees in related plants may prevent it: an early study of TNCs from the United States revealed that 10 per cent of respondents had accepted, at plants located abroad, union provisions excluding strike-breaking activities in the form of overtime or the handling of shipments with striking plants (Hershfield, 1975).
- \* Opportunities for production switching are particularly limited within functionally integrated TNCs. The costs of duplicating facilities are likely to be high. Thus, complex integration strategies, by dramatically raising the repercussionary costs of stoppage in a given affiliate, may actually place organized labour in a more powerful position than before, particularly in those affiliates that specialize as single regional or global sources of inputs for a TNC's whole production chain. There is some supportive evidence to this effect. The success of a two-week strike of workers at a Ford affiliate in the United Kingdom in 1988 showed the vulnerability of companies that are part of an integrated regional production network. The strike began a chain reaction of shortages and disruptions that quickly spread to other Ford plants in Europe. After only a week, the strike in the United Kingdom led to shortages of engines and disrupted production at Ford assembly plants in Belgium and Germany (ILO, 1993c, p. 93).

As this discussion suggests, cross-border production switching is not easy. In fact, few cases due to labour-relations problems have been reported.

The effectiveness of union action may also be influenced by the switching of employees between affiliates of the same TNC. In principle, this may be particularly relevant in the area of services because most services need to be produced when and where they are consumed. An example is a dispute relating to a car-rental affiliate in Denmark that attempted to maintain operations during a strike at its affiliate in Denmark by bringing in employees from affiliates in other European countries. That case led to the amendment of paragraph 8 of the OECD Guidelines (chapter IX) which previously generally referred to "threats seeking to influence unfairly good faith negotiations" and now condemns explicitly the actual transfer of employees across borders (Campbell and Rowan, 1983).

### B. Access to decision makers

Identifying, and obtaining access to, decision makers in a firm is essential if labour is to interact effectively with management. The principal reason is that labour, in many instances, needs to be informed and consulted on matters having a direct impact on its welfare, both in terms

### Box VI.3. Workers' rights in export processing zones: problems persist

If there is one development that has drawn widespread attention to the question of workers' rights, it is the keen competition among countries to attract investors to export processing zones by offering concessions that limit the exercise of those rights, or allowing practices that have the same effect. Such policies are in direct conflict with paragraph 45 of the International Labour Organization's Tripartite Declaration of Principles Concerning Multinational Enterprises and Social Policy (chapter IX) which states that special investment-promotion incentives granted by host country governments "should not include any limitation of the workers' freedom of association or the right to organize and bargain collectively" (ILO, 1991c, p. 8). The ILO's follow-up to the Declaration, through its fourth and fifth surveys, revealed that various problems continued to prevail.

In some cases, there is a normative basis for the different treatment that is meted out to workers in the zones, through the enactment of legislation that explicitly excludes the application of certain labour standards in those areas. For instance, in Turkey, the laws governing strikes, lockouts and conciliation are not to be applied for ten years following the start of operations in the zones. In the case of the Philippines, according to the Confederation of Labour and Allied Social Services, limits had been imposed on labour action, with the banning of unions in that country's export processing zones in the five years following their inception. Similar restrictions were reported in the case of Bangladesh, where the 1980 Export Processing Zones Authority Act denies workers the right to form and join unions, and for Pakistan, where those rights were limited under the 1980 Export Processing Zones Authority Ordinance and the Export Processing Zone (Control of Employment) Rules of 1982. Sometimes, the restrictions were imposed at the initiative of governments that regarded them as essential for creating a favourable investment climate. In other circumstances, they were introduced in response to explicit demands by potential investors. For example, the Government of Pakistan, in its 1989 report to the ILO's Committee of Experts on the Application of Conventions and Recommendations (also referred to as the Committee of Experts), argued that the restrictions had been "introduced in response to conditions laid down by multinational organizations before they were prepared to invest" in the country (ILO, 1989a, p. 209).

In other cases where unions are allowed, in principle, there may be limits on the scope of collective bargaining. In Malaysia, during the first five years of operation, both local and foreign companies that had "pioneer status" could not, without the approval of the Minister of Human Resources, give more favourable provisions than those specified in Part XII of the Employment Act, with respect to hours of work, rest days, paid holidays and sick leave. The aim it said, was to allow "infant industries" to take off without "excessive demands" from labour.

The inadequacy of law enforcement in the zones is another reason why workers' rights are undermined in some export processing zones. For example, in El Salvador, although the law prohibiting discrimination applies to all firms, enterprises in the zones did not hire persons belonging

of improving conditions and in terms of minimizing hardship that may result from corporate decisions. Access to decision makers may be especially important in critical bargaining situations.

One factor that should help in this respect is that labour-management relations are among the most decentralized functions within TNCs.<sup>4</sup> Transnational corporations recognize the importance of local knowledge for the successful management of labour, and they make more extensive resource commitments to the personnel function than to other functional areas.<sup>5</sup> Personnel managers within affiliates tend to be more specialized and more highly and relevantly qualified than their counterparts in domestic firms. However, the position of foreign affiliates in the nexus of corporate decision-making may be complex and change over time. When negotiations or collective bargaining take place, an affiliate may not be empowered to negotiate all aspects of a proposed agreement or take decisions without the approval of the parent company. This may raise problems in identifying and accessing key decision makers within TNCs and acquiring



to unions. In the Dominican Republic, while, on the whole, TNCs did not obstruct the exercise of freedom of association, there were a few exceptions in the zones (ILO, 1993b, p. 191).

Requirements for obtaining union recognition have also militated against efforts to organize workers in certain zones. Under the legislation that was in force at the time, only five unions representing workers in export processing zones in the Dominican Republic were registered and three applications submitted between 1989-1991 were refused. In contrast, over the same period more than 80 unions representing workers outside the zones were registered. Finally, the fact that export processing zones are typically fenced-in for security and other reasons, and that unauthorized personnel is typically not permitted to enter the zones, also constitutes an impediment to organizing workers into unions.

Complaints about anti-union discrimination in export processing zones have been brought to ILO over the years. It is therefore of interest briefly to note developments in the countries mentioned above as reflected in the 1994 Report of the Committee of Experts. In the Dominican Republic, the new Labour Code protects workers against anti-union discrimination and promotes collective bargaining. However, since unions can only negotiate when they have a membership that constitutes an absolute majority of workers in the enterprise or branch of activity, no collective agreement had been concluded up to the time covered by the Report. It should be noted that, subsequently (in April 1994), the Export Processing Zone Association of the Dominican Republic (ADOZONA) and six central workers organizations signed an agreement that makes it obligatory for all labour disputes arising in enterprises in the export processing zones to be settled through direct negotiations or, failing that, to be submitted to the Secretary of State for Labour for settlement by mediation. The Agreement also provides for the setting up of a committee composed of two representatives of the central trade union organizations, two representatives of ADOZONA and the director of the Government's labour education institution. The aim is to draw up plans and programmes that would make employers and workers more aware of the country's labour laws, of the correct procedures for applying them and of ways of organizing activities which could improve the climate of industrial relations. In Pakistan, by 1994, the Government had set up a tripartite task force with a mandate that encompasses industrial relations issues. Discussions have been held between the "direct contacts mission" representing the Director-General of ILO and the Government and the social partners, and continued technical assistance has been requested in an endeavour to deal with the problems. In Bangladesh, according to the Government, amendments to the aforementioned 1980 Act have been submitted to the competent authority for consideration, and some employers in the zones, in anticipation of the changes that may occur, have begun to allow workers to form unions.

*Sources:* information provided by the International Labour Office.

timely and accurate information necessary for balanced and meaningful negotiations on matters of interest to labour.

However, this does not necessarily mean that the decision makers to whom access is needed are always those in the parent firm. The example of British Oxygen's Swedish affiliate, Viggo, illustrates this. Viggo had announced plans to invest abroad rather than to expand production in Sweden. No lay-offs were contemplated, however, following this decision. Furthermore, in accordance with local regulations, the affiliate's management had discussed its investment plans with the Swedish labour federation. Swedish unions involved in the discussions sought access to the decision makers within the parent company, arguing that, under paragraph 9 of the OECD Guidelines, they were entitled to negotiate "with representatives of management who are authorized to take decisions on the matters under negotiation". The case was referred for clarification to the OECD Committee on International Investment and Multinational Enterprises.

In its clarification, the Committee suggested that, depending on the situation, the ultimate decision-making authority could be at the level of the foreign affiliate, while the headquarters' role remains limited to supervision and approval of the financial commitment related to the planned investment (Campbell and Rowan, 1983, p. 207). At the same time, the Committee provided guidance on the means by which enterprises can comply with paragraph 9 of the Guidelines (OECD, 1986, p. 37).<sup>6</sup>

The locus of decision-making within TNCs depends on a range of factors, including size and scope, organizational strategy, rationale for expansion abroad, the level of experience in investing abroad and types of markets served. Two aspects of the resulting structure are particularly relevant to organized labour:

- The degree of centralization of decision-making is generally higher within TNCs than within domestic enterprises (Enderwick, 1985; Greer and Shaerer, 1981). This generalization is, of course, subject to a number of caveats.
- Although there may not be a single optimum TNC organizational structure, there are some common characteristics (Hedlund, 1993a). Certain activities tend to be grouped by country, including, in many cases, industrial relations and human resources management. By comparison, for less culturally specific functions, such as research and development, structure is more likely to follow product lines. In general, centralization is more likely to occur (and may be easier) in smaller TNCs or where a globally (or regionally) integrated strategy is being developed, rather than in TNCs pursuing stand-alone strategies.

Whatever the organizational structure of a TNC, a considerable decentralization of the labour-relations function tends to be coupled with extensive provisions for upward consultation, at least concerning a number of issues. In comparison with their domestic competitors, personnel managers in foreign affiliates are more likely to get advice from a higher management tier with responsibility for labour-relations matters (Buckley and Enderwick, 1985). This provision for upward consultation can lead to management structures that are complex, broad-based and, at the same time, hierarchical. Such structures may result in a more protracted decision-making process and may create difficulties for identifying authorized decision makers.

However, organizational structure is not static and evolves constantly. The competitive business environment of the 1990s and, in particular, the trend towards complex integration strategies have brought forth organizational structures wherein hierarchical relationships are giving way to a network of cooperative, vertical as well as horizontal intra-firm and inter-firm relationships, within a strategic framework centrally coordinated by the parent company. This has implications for the level of decision-making within TNCs. In integrated structures, strategic decisions about investment and operational practices are increasingly taken outside national boundaries, making access to higher-level decision makers of growing importance for unions. In addition, some of the operating forms and governance structures associated with integrated TNCs — for example, strategic alliances and international subcontracting relationships — may obscure the precise boundaries of a firm, making it more difficult for unions to identify the bargaining counterpart. On the other hand, the flatter organizational structures and network relationships of such corporate constellations encourage the horizontal movement of information and the devolution of cost and profit responsibility to the level of the strategic business unit. In a number of cases, this has meant a shift in responsibility for regional managers from "management by task" to "management by performance" (Marginson and Sisson, 1993). These organizational changes facilitate decentralization of responsibility within the framework of a centrally coordinated policy and, hence, access to decision makers. This, in turn, increases the relative importance of company-specific characteristics in shaping human resource management strategies within affiliates. The French food manufacturing group BSN illustrates this: it brings together, twice a year, all human resource directors from its affiliates worldwide for an exchange of ideas and information. This has

the two-fold effect of not only reinforcing a company perspective, but also allowing the sharing of disparate experiences within an evolving corporate human resources policy. This is not an isolated instance: a survey among the largest TNCs operating in the United Kingdom showed that over one-third of the companies surveyed had a committee of senior managers and directors at the worldwide level to determine personnel policy, while meetings of personnel managers from different countries were reported in one half of the companies (Marginson et al., 1994).

Nevertheless, the pursuit of an integrated strategy may create strains between the centralization and decentralization of authority. Centralization of some strategic and operational aspects with a bearing on the organization of production and labour practices in affiliates abroad need to be reconciled with a decentralization of the industrial relations function and its adaptation to local conditions that have been traditionally adopted by TNCs as a way to ensure smooth labour relations and reduce vulnerability to local conflict. That raises the need for new forms of cooperation, including also the area of access to decision makers.

### C. Information disclosure and consultation

To fulfil effectively their function as bargaining agents, labour representatives need timely and relevant information. Depending on the issue at hand, it may include information on national, regional and global corporate performance of both a financial (e.g., revenue, profitability) and operational (e.g., production, productivity) nature, and planned activities such as plant run-downs, new investment or restructuring. Four aspects of information disclosure are particularly important in this respect: the level of aggregation of information; information coverage; the timing of disclosure; and the reliability of information.

- \* Certain information, such as company accounts, is usually aggregated at the company or, sometimes, regional level. Given the preference of many firms for decentralized bargaining, often at the level of the plant, information at those levels of aggregation may not be sufficient.
- \* As regards the type of information disclosed, TNCs appear to have a preference for disclosing financial and operational data rather than information on employment and investment plans. In part, this reflects the sensitivity of some of this information and the need to ensure confidentiality. In this context, a distinction needs to be made between actual decisions, for which employees seek prior notification, but accept as non-negotiable, and the implementation of such decisions, where negotiations on the timing or impact may be possible; as regards the latter, information that relates more than purely to the national situation may be important. This concern has been addressed in the OECD Guidelines and the ILO Tripartite Declaration. For instance, paragraph 54 of the ILO Declaration asks TNCs to supply information where national laws and practices so provide, to enable labour to "obtain a true and fair view of the performance of the entity, or, where appropriate, of the enterprise as a whole" (ILO, 1991c, p. 9).
- \* The importance of the timing of information disclosure, particularly regarding plant closures and the loss of employment has been underlined by the extensive corporate rationalizations that have occurred during the 1980s and 1990s, in particular regarding plant closures and the loss of employment (box VI.4). For example, in the much debated Hoover case, where an affiliate was moved from Dijon (France) to Glasgow (United Kingdom), the fact that adequate information on the transfer of production was not provided by the company was a major point of criticism by local authorities and trade unions; on the other hand, Nestlé avoided criticism concerning its move from Glasgow to Newcastle, precisely by providing timely information and consulting with unions. Unions

from developing countries often also note that reasonable notice of changes in operations is not given by firms operating in their countries (ILO, 1992c, p. 28).

- The reliability of information provided by TNCs is affected by a number of factors. One is the practice of transfer pricing, whereby prices are assigned to internal transactions, a process that can affect the validity of financial data. Little is known about the extent of transfer pricing, and it is not possible to make generalizations about its extent or impact (Plaesschart, 1993). The reliability of information is also influenced by national differences in standards of accounting and reporting (Bellace and Gospel, 1983). A number of efforts have been undertaken in different forums to deal with the harmonization of accounting standards used by TNCs in order to improve the transparency, quality and comparability of financial information (UN-TCMD, 1993e; UNCTAD-DTCI, 1994i).

In many cases, employees of TNCs may need access to information beyond that available to the general public. The principal source of information for union negotiators is, indeed, internal (ILO, 1985). The decentralization of bargaining observed earlier can increase the flow of information within TNCs, principally through consultation processes that can be helpful in this respect (Buckley and Enderwick, 1985). In the case of non-unionized employees, a considerable amount of information can be provided through consultative committees, particularly when there is a legal basis for having consultation procedures or where such practices are entrenched in a national industrial relations setting. The scope of consultation, however, may be quite narrow.

#### **Box VI.4. Labour relations and the consultative process within the Volkswagen Group**

Like other automobile manufacturers, the Volkswagen Group currently faces a number of challenges — caused by worldwide recession and ever increasing competition in the automotive sector — and finds itself in a process of restructuring. Affected by this are a total of approximately 242,000 workers worldwide: 144,700 in Germany, 97,400 abroad (Latin America, South Africa, Mexico, Asia-Pacific, Europe excluding Germany). In order to meet these challenges, the company has developed and implemented a number of strategies. The main goal has been to avoid retrenchments where possible and to make use of the creative potential of the human resources of the firm while implementing improvements in order to cut costs and remain competitive. In this process, Volkswagen recognizes the importance of arriving at a mutual understanding with its employees and their representatives concerning the situation of the company, the necessity of the measures implemented and their impact on the workforce.

Measures for reducing costs and increasing competitiveness include the following:

- Continuous improvement process-workshops have been set up at every location worldwide, and are attended by managers as well as workers and member of the local works councils. The aim is to save costs through improved work organization, reducing wastage of time, money and materials, while improving working processes.
- New sourcing-strategies aim at reducing the costs for components, modules and parts, and which are based on a procedure agreed between management and works council.
- Strategy for reducing the number of platforms for cars to a reasonable and competitive amount has been introduced.
- Lean management structures have been implemented in order to improve decision-making and communication.

The well-established labour relations within the Volkswagen Group (80 per cent of its labour worldwide is organized) proved to be very helpful in meeting these challenges. They provided the basis for prior open discussions of the company's strategies with the different bodies of the workers'



representatives at different levels. Besides the traditionally well organized national bodies representing the workforce within the VW Group at the national level, international links have been built up from an early stage: in cooperation with the International Metalworkers Federation (IMF), the first meeting of the Volkswagen World Automotive Committee was organized in 1979. At that time, representatives of the workforces of Volkswagen subsidiaries worldwide met for the first time in Wolfsburg. Since then, two more conferences of that kind have taken place: the second in 1986, the third in 1993, both of them again at Wolfsburg, where the head office of the Group is located. These conferences or world councils do not have the authority of a decision-making body, but rather the function of a plenary for exchange of information, for discussions concerning future tasks etc.. The conferences are deliberately held at Wolfsburg, in order to improve and promote direct communication, discussions and flow of information, not only amongst the delegations, but also between the delegations and the representatives of management. Volkswagen's management supports these conferences not only by financial means, but — based on the understanding and approach of "social partnership" — seeks and takes the chance to present its point of view concerning present and future tasks.

In 1990, a more formal body, the European Volkswagen Group Works Council, having defined rights and duties, was established and this was formally recognized by the company in 1992. At present the Council consists of 17 members, including employee representatives from the European companies and production plants of the Volkswagen Group. Through an agreement on joint cooperation, Volkswagen's management and the European Works Council formulated the principles, aims and characteristics of this body as follows:

- to work together in the spirit of social dialogue at the European level;
- to solve jointly conflicts that may arise;
- the legal rights and duties of the respective national worker-representative bodies remain untouched;
- the Council is guaranteed the right of information;
- the Council is guaranteed the right of early consultation;
- the Volkswagen Group bears the costs incurred by the Council;
- meetings between the Council and Volkswagen Group management are to take place at least once a year;
- the term of the agreement is not limited.

The rights of information and consultation pertain especially to the following issues:

- securing of jobs and plants, and plant structures;
- development of Group structures;
- productivity and cost structures;
- development of working conditions (e.g., working hours, wages and salaries, job design);
- new production technologies;
- new forms of work organization;
- work safety, including plant environment protection;
- the effects of political developments and decisions on the Volkswagen Group.

Above all, consultation is particularly emphasized when cross-border transfers of production are planned. The early establishment and recognition of the European Volkswagen Group Works Council, in advance of a European Union Directive, has enabled the company to avoid potential conflicts that might have arisen due to its restructuring efforts by means of early and timely communication with employees.

So far, five regular meetings between the European Volkswagen Group Works Council and the Volkswagen Group management have taken place, dealing with topics such as new work organization at Volkswagen, financial strategic planning and securing European locations during the employment crisis.

*Source:* information provided by the Volkswagen Group.

Even within TNCs where extensive consultations with labour representatives are undertaken, this is normally done only on a voluntary basis (Trevor, 1983). As discussed in more detail in chapter IX, it is primarily in Europe that a number of large TNCs has voluntarily adhered to information and consultation procedures through voluntary international company councils; examples include such TNCs as Bull, Elf Aquitaine, Nestlé, Thomson and Volkswagen. The planned establishment of European-level works councils is a further step in this direction (chapter IX).

Consultations of this kind tend to take place at the regional level and, in combination with corporate-level information, provide a context for understanding the rationale behind, and likely impact of, decisions on foreign affiliates. The information gained in this manner is particularly important for labour to conduct negotiations in those affiliates that belong to strongly integrated and centrally coordinated corporate structures. In these structures, as suggested earlier, developments in a given affiliate are dependent on developments in other affiliates in different countries, and key decisions affecting employment and production locally are more likely to be taken at the parent-company level, taking into account the need to ensure the satisfactory performance of the enterprise as a whole.

## **D. The introduction of innovatory practices**

Foreign affiliates normally conduct their negotiations within prevailing local bargaining structures. While adapting to local conditions, TNCs have spearheaded new human-resource management practices, in developed as well as in developing countries (box VI.5); in fact, this is an area in which TNCs can make important contributions to the development of host countries. In the Republic of Korea, for instance, TNCs have introduced advanced practices of operating joint labour-management bodies (Dunning, 1993b, p. 378). In the special economic zones established in the People's Republic of China, foreign investors have successfully introduced a combination of contract labour and wage systems that links rewards to performance, contributing to fundamental reforms of the wage structure and the labour market (Sklair, 1993; Zhan, 1993). It is possible to identify three areas in the introduction of innovatory management practices by TNCs in the post-war period, each of them with immediate implications for industrial relations. The first two are directly linked to the growth of TNCs, the third is linked to globalization and regionalization and the emergence of integrated international production.

### **1. Independent bargaining practices**

The first wave of innovatory practices took place in Western Europe during the early 1960s, with United States TNCs taking the lead. Three areas are particularly worth mentioning:

- **Productivity bargaining.** In this approach, wage increases are tied to improvements in performance or greater flexibility in certain union practices (Dunning, 1993b). This was facilitated by the fact that the TNCs involved had affiliates in various countries and thus had access to critical comparative information on costs and performance.
- **The adoption of multi-year agreements.** Transnational corporations from the United States had an influence in introducing multi-year agreements into industrial relations practices in a number of host countries in this respect, e.g., the United Kingdom (Steuer and Gennard, 1971).
- **Bargaining at the level of the enterprise or plant.** Transnational corporations from the United States, used to bargaining at the level of the enterprise or plant, contributed to this practice in a number of Western European countries (Marginson and Sisson, 1993), although generally in the form of supplementary bargaining within the framework of

multi-employer, industry-wide agreements. Bargaining at the level of the individual plant or enterprise brings a number of advantages to employers. Where wages and conditions are no longer tied to the marginal employer, managers enjoy increased control over both labour costs and utilization. This approach also facilitates the introduction of new technology and negotiations over plant-specific issues such as skill development.

Comparative research of bargaining procedures during the 1980s suggests that TNCs tend to couple their preference for independent bargaining practices with formalized provisions for handling bargaining disagreements. A preference for enterprise-based dispute-settlement procedures could be due, in part, to the absence of procedures available within industry-wide agreements or through employer associations. Transnational corporations were also more likely to utilize independent intervention for the purpose of settling bargaining disputes. Their desire for independence was mirrored, in some cases, in a lower propensity for membership in employers associations; this was the case with respect to TNCs in the United Kingdom (Buckley and Enderwick, 1985). However, in those countries in which collective negotiations are firmly established, TNC managers seem to play an active role in the actions and policies of employers' associations. This occurs, for example, in Belgium where collective agreements achieved through federated bargaining are not only legally binding, but can be imposed on non-participants (Blanpain, 1982).

The introduction of new labour practices by TNCs may be particularly significant where TNCs are involved in privatizations. Potential areas of conflict may emerge between the new labour practices of TNCs and the established industrial-relation systems in former State enterprises (box VI.6). The problems are particularly acute in Central and Eastern Europe. In many cases, the early stage of implementation of privatization programmes was slowed by the initial opposition of the established unions in State-owned enterprises, due to fears regarding the removal of state subsidies and the uncertainties of reforms, especially those affecting the stability of employment and wages. For example, one of the major reasons for slow progress in attracting foreign investors in the privatization process in Poland was the strong role of work councils, many of which were relatively unfavourable to foreign participation.<sup>7</sup> In other cases, however, unions played a pivotal role in facilitating the process of privatization. For example, in Slovenia, the unions at the Tobacco Company Ljubljana, acquired by foreign investors, participated in negotiations with the new management and reached an agreement on a modernization plan that excluded lay-offs, set wage raises and introduced new standards of quality supported by intensive training (Korze and Simoneti, 1994, p. 129).

## 2. Practices related to the flexible organization of production

A second wave of innovatory labour practices — pioneered by Japanese TNCs operating in Europe, the United States and other developed countries — focused, beginning in the early 1980s, on increasing quality, operational efficiency and flexibility in production (Oliver, Morris and Wilkinson, 1992). That a focus on flexibility was spearheaded by Japanese TNCs is not surprising. Flexibility is an essential feature of Japanese enterprises whose business philosophy is based on achieving a continuous improvement in performance. Incremental change is greatly facilitated by resource flexibility, including the use of labour. The Japanese system calls for highly motivated workers with diverse skills and knowledge. In Japan, such flexibility is associated with a lifetime employment system, a pay and promotion system based on seniority and an egalitarian remuneration system (Watanabe, 1993, p. 141). It also coincides with cooperative labour-management relations and strong enterprise unionism.

In general, novel practices in the area of industrial relations associated principally with the introduction of flexible work-organization methods are reflected in new style agreements that have been concluded by TNCs in the 1980s and early 1990s, particularly in the United Kingdom,

### Box VI.5. Euro Disney: the challenge of flexibility

Euro Disney, a wholly-owned affiliate of The Walt Disney Company (United States), started its operations in France in 1987. It developed the Euro Disney Resort located north of Paris, opened to the public in 1992. Euro Disney functions through a number of operating affiliates including, among others, Phase IB Hotels, The Festival Disney Entertainment Centre and Euro Disney Vacances which sells package holidays for Euro Disney Resort. The company has three main areas of business: consumer products, entertainment (including films, shows etc.) and the theme park.

Euro Disney started its operations in France under the close supervision of The Walt Disney Company in the United States. Each manager had a counterpart based in the parent company in the United States controlling the establishment of the parallel function in the affiliate. In the area of labour relations, the influence of the practices followed by the parent group in its different activities and locations worldwide have been less pronounced, as the company had to comply with the local regulations. Euro Disney's labour relations followed, however, the parent company's management practices, including, for example, dialogue with the employees that are part of the show as cast members. In some cases, some labour practices introduced in the French affiliate by headquarters had to be modified. For example, the company offered employment contracts where wages were calculated either hourly, for cast support, or monthly for managers. The job classifications were restricted to a few categories. Following negotiations with local labour representatives, a collective convention was signed to modify the job classifications and expand and assemble them into groups of jobs. Employment contracts were also redefined according to three different statuses: cast member support, cast member "agent de maîtrise" and cast member manager.

According to the host country regulation, contracts were set as permanent (full or part-time) or fixed term (full or part-time). Recognizing the specific nature of the business, the convention provides that the cast members holding part-time contracts could be requested to work full time at certain times in the year. Provisions were also made for working on Sundays and holidays.

In the face of a recession in Europe and a higher than anticipated seasonality of the business, Euro Disney Resort has incurred losses. The management is therefore focusing its attention on redressment of the company's financial structure and improving its profitability. Numerous initiatives have been implemented to streamline the organization, reduce management layers and tighten and renew the executive team, which is now a more balanced blend of Europeans and Americans.

The seasonality of the business proved very costly for Euro Disney. The group's performance was affected by the difficulty of adapting variable costs to significant variations in park attendance and hotel occupancy due to seasonal and meteorological factors. Cost effectiveness was also hampered by the recourse to overtime or extra temporary workers in the high peak season. The search for greater efficiency has been accompanied by efforts to introduce truly flexible management practices to achieve cost reduction, manage business seasonality and limit the negative effects of a relative high turnover of labour. Euro Disney has prepared a proposal, after negotiations with the unions, that approaches working time and vacation as a whole in order to meet the requirements of the workers for maintaining stability of employment, as well as the needs of the company for reduced labour costs. This proposal, signed by the unions, calls for the annualization of the working time, combining flexible working hours at time of peak season with the recuperation of overtime hours worked between 39 and 44 hours as vacation. The package also establishes bonus time off in cases where these compensation hours are taken during certain periods of the low season. The annualization of working time would introduce at Euro Disney a system of individual working time schedules, managed by a sophisticated computer programme. Each worker would have his or her personal data bank of hours worked and compensation time off.

This agreement has yet to enter into force for a number of reasons. One is the limited representativeness of unions that might hamper its acceptance by the employees. Unionization at Euro Disney is not high. The company employs people of 93 different nationalities with different labour-relations experiences. Furthermore, young people in their first jobs account for the majority of the workforce. The management moreover has fears that the procedure might be cumbersome. Notwithstanding anticipated difficulties, the proposed agreement is regarded as a possible high performance tool. It has also been well received among a number of services firms facing similar problems of seasonality of business and it might, if successful, be introduced by them in similar forms.

Source: information provided by Euro Disney.

and have begun to influence indigenous enterprises. They have a number of common features (Rico, 1987, pp. 68-69):

- \* A preference for single-union recognition or at least a much stronger degree of coherence in multi-union bargaining. Foreign affiliates are less likely to bargain through complex multi-union structures still prevalent in a number of host countries.
- \* The adoption of a single status for workers and/or the harmonization of working conditions. This allows greater flexibility of labour, job rotation and team-work, and it appears to have a positive effect on attendance and motivation.

### **Box VI.6. Privatization and industrial relations: the New Zealand experience**

Since 1984, the New Zealand economy has undergone a radical transformation through a combination of deregulation, liberalization and privatization. Historically, the public sector played a major role in New Zealand's economy, accounting (in 1984) for more than 40 per cent of gross domestic product and 31 per cent of employment. However, a very poor economic performance over a significant period of time, and major changes in the global economic environment stimulated a process of policy reform aimed, among others, at promoting private investment and reorganizing the public sector.

The privatization of State-owned enterprises played an important role in the process of reform. Other measures for reform included the abolition of exchange controls, the deregulation of the financial sector and removals of restrictions on FDI. The Government of New Zealand actively sought the participation of TNCs in the privatization process in order to enlarge the availability of capital, obtain the needed expertise and assure the improvement of services provided to the public. The few restrictions that were placed on the participation of foreign investors in the privatization programme were clearly intended to maintain control of broad national interests. After privatization, TNCs hold a controlling or significant equity interest in the national airlines, railway system, shipping corporation, telecommunications, banking and broadcasting (OECD, 1993e).

The overall contribution of FDI to employment in New Zealand increased from 10 per cent in 1986 to 12 per cent in 1990, and even more in manufacturing, increasing from 18 to 23 per cent over the same period (OECD, 1993e). However, some of the privatized companies have, in the process of becoming more efficient and competitive, introduced quite different management methods and implemented considerable employment reductions and major changes in employment terms and conditions (Duncan and Bollard, 1992).

For example, New Zealand Telecom, which had already reduced its workforce after the privatization of the corporation in 1990, announced in February 1993 its intention to reduce its workforce by a further 41 per cent over the coming four years. Workers expressed their concern with the process of restructuring and have tried to establish better interaction with management. A number of actions (including a six-day strike) were taken to protest certain aspects of restructuring.

The introduction of flexible hours and other arrangements to extend services have also encountered some problems. For example, after the privatization of the New Zealand Rail Cook Strait inter-island ferry business, the management, in an attempt to lower costs and introduce 24-hour service, has engaged in negotiations with the three unions concerned.

The reform of employment conditions and work practices has been facilitated by the introduction of new labour-market legislation. Of particular relevance is the 1991 Employment Contracts Act. This Act has a significant impact upon bargaining structures and practices. It provides a clear right for individuals to decide whether or not to join a union or any other employee organization. In addition, employees are provided the right to decide whether or not they wish to be represented by a third party in negotiations and, if so, which individual or organization they believe can best represent their interest. The Act also strengthens the right of organizations to negotiate individual as opposed to collective contracts.



- The existence of a no-strike clause, generally in combination with some form of binding arbitration. This is designed to minimize disruption within a production system highly sensitive to interruptions.

Many of the new style agreements that contain these elements are supported by considerable investment in training, extensive and intensive screening of employees and a significant commitment of resources to the human resource management function. Underlying them is the recognition that the creation and operation of modern and efficient production facilities needs to regard employees as key assets and requires the cooperation of labour, including trade unions:

"Transformation is easier in an organization where all employees in a plant or enterprise are represented by a single union than where the workforce is fractionated by multiple, ideologically-based unions or compartmentalized by multiple, occupationally-based unions. The most successful manufacturing organizations today are ones where job classifications are few and broad, and work teams accomplish their tasks in ways which often do not conform to traditional occupational demarcations. [...] Transformation is difficult or impossible without trust and effective communication. An expectation of absence of conflict is unrealistic, but a relationship characterized by continual conflict and adversarialism creates an environment where transformation is difficult or impossible. Successful manufacturing organizations tend to be characterized by a high degree of labour-management co-operation" (Deeds, 1992, p. 2).

It is possible that some aspects of the new style agreements weaken the cohesion and bargaining power of some trade unions, especially where bargaining is decentralized to the plant level and bypasses traditional multi-employer and industry agreements. In addition, the new methods are often accompanied by downsizing and a reduced workforce in plants in various locations. Core workers may benefit while others face unemployment or reduced incomes which give rise to societal problems. At the same time, it is recognized that it is neither possible nor desirable to resist new management methods if these are, indeed, superior and likely to prevail. If anything, pressures of global competition force firms to be as efficient as possible.

### 3. Complex integration strategies and best practices

A third wave of innovatory practices during the 1980s is linked to complex corporate integration strategies leading to integrated international production. This form of organizing production has implications for industrial relations systems, as can be seen from trends in those regions where the integration of corporate structures has grown fastest in recent years, in particular in Western Europe. As a result of the creation of the Single Market and following a wave of acquisitions, mergers and alliances, large TNCs operating in the European Union have created integrated management structures at a pan-European level, distinct from their formerly national organizational divisions. The new structures indicate a tendency for developing firm-specific employment systems or "organization-based" arrangements for dealing with industrial relations (Marginson and Sisson, 1993).

This development transcends the established industry and sectoral frameworks for collective bargaining in Europe and reinforces the trend towards a decentralization of bargaining to the company or plant level, especially as traditional structures of industry (or multi-employer bargaining) are unable to encompass the growing inter-firm diversity of industrial relations outcomes. The impact on the national industrial relations system can be seen in the United Kingdom, but is also significant in other European countries where TNCs negotiate their own agreements, e.g., the Netherlands, or where TNCs are quite active in bargaining at the company level as a supplement to sectoral agreements, e.g., in France, Italy, Spain and Sweden (Marginson and Sisson, 1993). The number of TNCs that has adopted such arrangements is not large; but given their size, they may play an important role in determining the future of multi-employer bargaining in that region. The establishment of voluntary company councils at the European level (chapter

IX) is an indication of the current trend. It is an open question whether the preference for negotiating company-specific issues outside the established federated bargaining structures may also lead to a change in the attitude of TNCs towards employers' federations. However, there are no clear trends in this respect.

Another development with potential implications for industrial relations is the growing adoption of flexible organization and lean production by integrated firms, introducing elements of "best practices" pioneered by Japanese firms, in all steps of a firm's production process. This impact of TNCs contributes to new approaches to industrial relations, both within and outside TNCs. Union reactions to new practices introduced by TNCs often take an evolutionary course, moving from initial concern to a reconsideration of existing systems. The diffusion of best practice manufacturing and management methods under integrated international production further encourages this process. It could result in a cross-border convergence of work organization and conditions and quality of employment within integrated TNCs. If production is tightly coordinated across affiliates in different countries, each one of them would be under pressure not to diverge from global (or regional) best practice. Although limited and subject to important qualifications, some evidence on the convergence of relatively high performing plants towards a common pattern of workplace relations is available. This pattern tends to be characterized by:

"(1) Broader and more flexible jobs involving greater use of employee abilities based on teamwork. (2) Organic rather than bureaucratic forms of work organization, including flatter hierarchies and closer functional integration. (3) Reward systems which have a greater element of pay related to performance. (4) Fewer unions — one, two or none at all — and relatedly, (5) Workplace bargaining (where unions exist and within parameters set by higher level management) based on single or dual bargaining units, featuring extensive consultation with union or employee representatives and more direct communication with employees" (Frenkel, 1991, p. 2).

Such a convergence is not likely to occur at the same pace in all TNCs, industries or countries. The prerequisite is a complex set of factors that include quality-based competitive markets that emphasize the comprehensive use of workers' skills, a commitment to technological and organizational change, management style and institutional settings that encourage the development of human resources and do not treat labour as a disposable commodity, as well as deeply integrated corporate structures. Variations in the distribution of these factors may lead to considerable variations in patterns of workplace relations.

In the longer term, as appropriate adjustments work out their effects, labour may benefit from this development, including benefits in the form of enhanced labour cohesion within TNCs as the broad similarity of conditions may lead to a perception of shared interest among workers in affiliates in different countries. At the same time, competition between locations for value-added activities could inhibit such a perception, as a result of which TNC employees may identify less with nationally based union organizations; furthermore, employers may prefer arrangements that reduce the vulnerability of their globally integrated structures to national union action or strengthen efforts to communicate directly with the workforce rather than its representative.

The adoption of best practices could also contribute to the stratification of the labour force. One characteristic of stratified labour systems is that they offer high levels of job security and earnings to core workers, accompanied by a growing secondary or peripheral workforce. Employers may seek a maximum of cooperation with their core employees, which may decrease their incentive to join trade unions; at the same time, it may become more difficult to organize a fragmented peripheral workforce. Transcending this, however, is the growing significance of internal labour markets within TNCs and the challenge that this poses in terms of the need to develop new style industrial-relations systems.

## Conclusions

The transnational organization of production poses special challenges for nationally organized labour. The differences in scope of organization create a more complex system of production which, at least in principle, gives certain advantages to TNCs and others to trade unions. There are also signs suggesting that the scope for national systems of industrial relations to determine labour practices and bargaining relationships autonomously is becoming more limited, as a result of globalization, growing economic integration and competition for FDI. Moreover, the shift to complex integration strategies, particularly evident among large TNCs in Europe, has been associated with the emergence of company-based industrial relations structures that are likely to have some impact on established industry-wide patterns of collective bargaining. At the same time, the growing integration of geographically dispersed affiliates of TNCs is likely to make transnational production systems potentially more vulnerable to union action at the workplace level. In addition, the growing importance of created assets and the adoption, by many TNCs, particularly integrated ones, of flexible production methods and new organizational paradigms, such as "just in time" or "lean production", are enhancing the need for workers' commitment to the performance of the firm. Such a need can be best sustained in the framework of a cooperative approach to industrial relations.

It also appears that a number of restructuring strategies implemented by TNCs in recent years, particularly workplace reform and rationalization to refocus on core business, the externalization of non-core tasks and the emergence of dual sourcing could reduce firms' vulnerability to union action. There has also been a noticeable tendency for certain issues to be shifted from the domain of collective industrial relations to human resources management, i.e., management that focuses on individual core employees or groups of employees, and that may fall outside the traditional approach of labour organizations. Within the framework of integrated international production, employees are increasingly recognized as important stakeholders in the enterprise that have a strong interest in ensuring its success. While there may be disagreement about how this is best achieved, how the benefits of success should be shared, how unions may be involved and how national systems of industrial relations may be affected, one effect of expanding integrated international production is the recognition that all employees have much to contribute to the well-being of the enterprises in which they work — in fact, regardless of whether they are transnational or not. Growing acceptance of this view may permit the development of new cooperative arrangements for the conduct of industrial relations within TNCs.

National industrial relations systems and the strategies of trade unions need to adapt and respond to the challenges of internationalization and integration of production within TNCs' organization structures and to seize the opportunities opened up by these developments. The challenge for labour, in particular, is considerable. Evolving strategies in this respect are reviewed in chapter IX.

## Notes

1 This was affirmed by the OECD Committee on International Investment and Multinational Enterprises in the context of a clarification of the application of the chapter on Employment and Industrial Relations of the OECD Guidelines for Multinational Enterprises (OECD, 1992b, p. 43). The Guidelines are recommendations jointly addressed by the OECD Governments to TNCs operating in their territories. Their observance is voluntary and not legally enforceable. For more information on the Guidelines, see chapter IX.

2 Paragraph 6 of the chapter on Employment and Industrial Relations of the OECD Guidelines.

3 The average rate of unionization in Australia in 1990 was 40 per cent; see OECD, 1994c, p. 53.

4 See ILO (1989b), Young, Hood and Hamil (1985) and Martinez and Jarillo (1989)



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- 5 See, for instance, Buckley and Enderwick (1985); Hiltrop (1991) and Purcel et al. (1987)
- 6 According to the OECD, in carrying out their responsibility with respect to paragraph 9 on issues relating to future production and investment plans, management of the enterprise as a whole would seem to have a range of possibilities among which it could choose, depending on various circumstances. These possibilities include (OECD, op. cit., p. 37): (i) to provide the management of the subsidiary with adequate and timely information and to ensure that it has sufficient powers to conduct meaningful negotiations with representatives of employees; (ii) to nominate one or more representatives of the decision-making centre to the negotiating team of the subsidiary in order to secure the same result as in the preceding example; and (iii) to engage directly in negotiations.
- 7 "Survey of foreign investment", *Business Central Europe*, 2, 10 (April 1994) pp. 33-48.